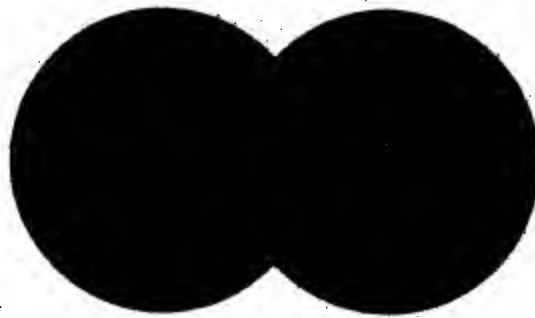


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WEEKLY SUMMARY

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C O N T E N T S

| | Page |
|-------------------------|------|
| HIGHLIGHTS..... | 1 |
| WESTERN EUROPE..... | 2 |
| EASTERN EUROPE..... | 4 |
| NEAR EAST - AFRICA..... | 6 |
| FAR EAST..... | 7 |
| WESTERN HEMISPHERE..... | 9 |

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SECRET**H I G H L I G H T S**

While the world awaited the outcome of the Moscow talks, the USSR during the past week intensified its pressure on Berlin and rode roughshod over western opposition to dictate the terms upon which the Danube Conference was concluded. By repudiating existing Danubian financial obligations and conventions and by disregarding the interests of non-riparian states, the USSR has aroused new antagonism in the west and probably further embarrassed Communist minorities, particularly in Austria, Italy, France and Germany. In the Soviet view, however, such consequences are far overshadowed by the compelling necessity to bar the west from the Soviet orbit and to convince all eastern Europeans that it would be fruitless to look to the west for escape from Kremlin control.

Other noteworthy trends and developments this week include: the increasing probability that the Italian colonial issue will be referred to the UN (see page 2); an anticipated increase in labor unrest in western Germany (see page 2); Yugoslavia's apparent acceptance of an indefinite stalemate between Tito and the Kremlin (see page 4); continuing Jewish intransigence and the threat of renewed hostilities in Palestine (see page 6); a slight easing of the immediate threat to the Burmese Government (see page 7); and indications that Nicaraguan air power will prove decisive in suppressing conspiratorial activity and containing guerrilla activity in Central America (see page 9).

- 1 -

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W E S T E R N E U R O P E

The disposition of Italy's former African dependencies is being discussed at meetings of the Foreign Ministers' Deputies. Although four-power agreement has been reached on Italian trusteeship of Somaliland, the UK is insisting that any such solution include provision for Italian payment of at least part of British occupation costs. The situation is further complicated by the fact that the UK, strongly opposed to the USSR's proposal to return Eritrea to Italy, maintains that any solution on Somaliland should be contingent upon a settlement for Eritrea. Unanimous agreement on Eritrea and Libya seems unlikely because of the disparity in the views of the four powers; consequently the problem will be referred to the UN.

UNITED KINGDOM

RAF operations in the Berlin airlift are costing the UK Government approximately £60,000 weekly, and RAF training is almost at a standstill. Although the British believe that they can maintain and even increase these operations during the winter, reserve stocks of aircraft engines will be seriously depleted with little possibility of replacement from British industry. In the future, therefore, the RAF will be incapable of meeting similar demands unless materially assisted by sources outside the UK.

GERMANY

Serious work stoppages in western Germany and intensified resistance to occupation policies may result from the use of current German demonstrations by the moderate left-wing Social Democratic Party (SPD) to call attention to its own program for remedying economic conditions. The SPD is agitating vigorously against further dismantling of German industries

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SECRET**GERMANY**

for reparations and is highly critical of the currency reform and its impact on the workers. In an attempt to regain recent loss of prestige and to offset Communist exploitation of present unsatisfactory economic conditions, the SPD also is advocating lower prices, higher wages, and an immediate capital levy on all forms of property to equalize the burden imposed on the people by the currency reform. The Party, moreover, is making political capital of the suspension of the works council co-determination law (giving labor and management equal voices in determining industry policies); the SPD claims that this action by Military Government is unjustified interference with the western German socialization program.

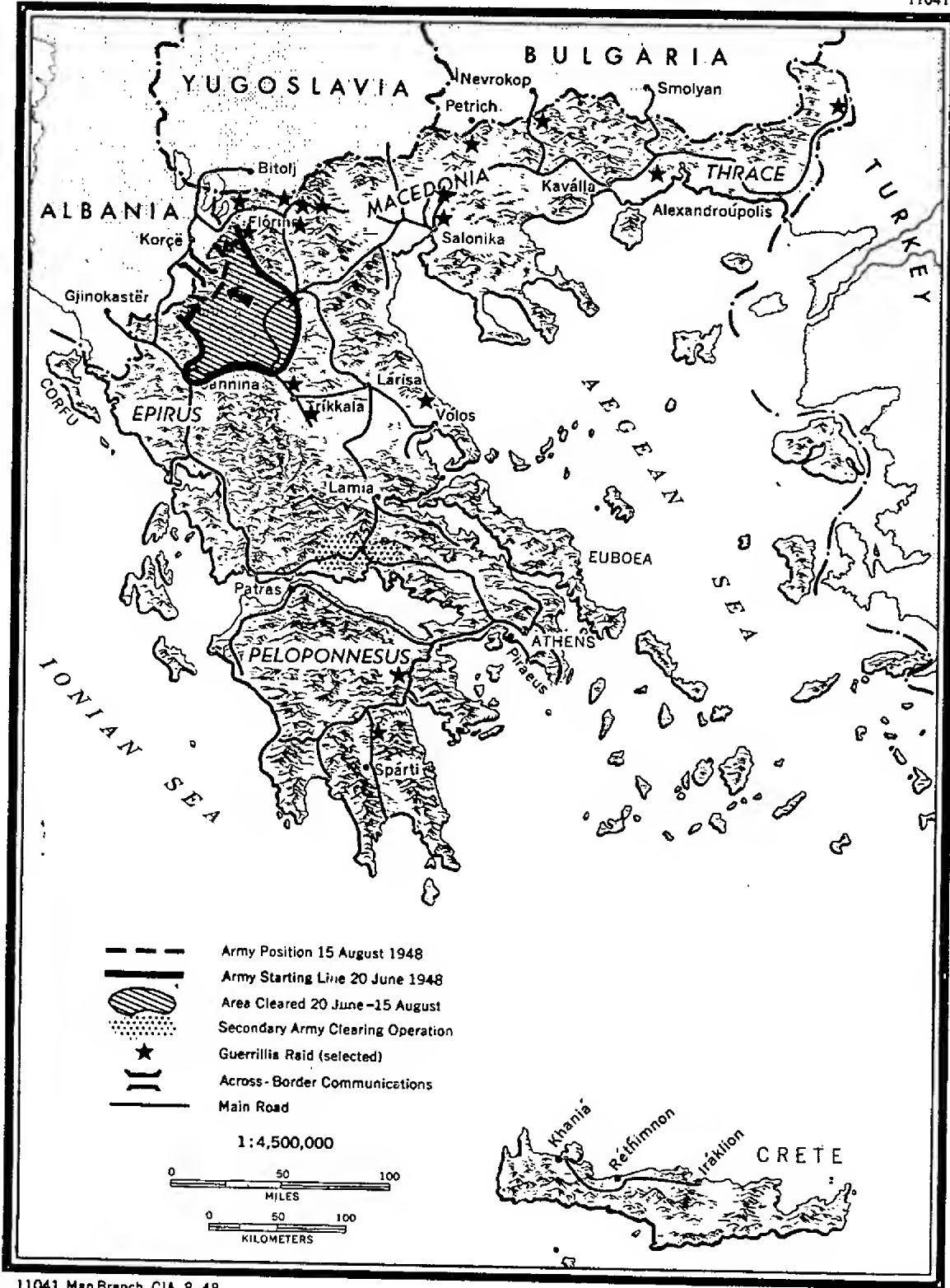
FRANCE

Gaullist opposition to Reynaud's economic program is evidently purely political in character and appears motivated by the apprehension of the Rally of the French People (RPF) that the new coalition government, with its broader and stronger base, represents a practical formula for applying the very principles preached by De Gaulle. This interpretation is supported by the fact that the RPF arguments against Reynaud's program contradict De Gaulle's basic principles favoring increased executive authority. The pro-RPF deputies in parliament have contended that Reynaud's request for broad executive powers endangered parliamentary prerogatives.

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GREEK ARMY GRAMMOS OFFENSIVE-15 AUGUST 1948

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11041 Map Branch, CIA, 8-48

SECRET**E A S T E R N E U R O P E****YUGOSLAVIA**

The Yugoslav Government is evidently resigned to an indefinite continuation of the stalemate between Tito and the Kremlin. The Yugoslav regime is moving cautiously, however, to avoid widening the breach and, at the same time, is taking every precaution to nullify any Kremlin attempt to enforce its Cominform discipline. Tito does not anticipate any economic sanctions against Yugoslavia, since the USSR probably recognizes that this would push Tito even further toward the west. Instead, covert action to overthrow the Tito government is expected to be the Kremlin's method of attack. The Yugoslav regime is convinced that its position will grow stronger with the passage of time and that the Kremlin made a serious mistake in not reconciling the prewar "absolutism" of Communism with the postwar needs of Communist parties now governing Satellite areas.

GREECE

The remarkable guerrilla defense of the Grammos area appears finally to be succumbing to the superior weight of the Greek Government forces. The rebel organization apparently is still functioning, but it is evident that sooner or later the main body of the guerrillas must use the only escape remaining to them--retreat into Albania. Because the area involved is now so small, the spotlight of the UN observation teams can be sharply focused and should clearly reveal present Albanian-Soviet policy concerning aid to Markos. However, the end of the Grammos offensive will not mean the end of the guerrilla war in Greece. In other parts of Greece, guerrilla raiding, sabotage, mine planting, and recruiting have increased. Despite these activities and the recognition by the more realistic leaders in

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GREECE

Athens that the guerrilla threat to the security of the country will continue for months, if not years, a certain optimism is evident in the capital. The first manifestation of this optimism is in the initiation of political jockeying by certain deputies to terminate the present coalition government. A change in government will probably take place before October. The new government is not likely to be an improvement over the present one, which has been unusually durable and free of partisan excesses.

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N E A R E A S T - A F R I C A

PALESTINE

There has been little change in the Palestine situation. The Provisional Government of Israel (PGI) has shown no disposition to soften its demands for territory allocated to the Arabs by the UN partition resolution; has refused to demilitarize Jerusalem; and has threatened to force the Arab armies out of Palestine if the UN does not soon effect their withdrawal. UN Mediator Bernadotte is greatly concerned over Jewish intransigence and believes that, unless the PGI modifies its extreme position, he can make little progress toward a settlement. The Arab refugee problem is straining the economic and political resources of Syria, Lebanon, and Transjordan to such an extent that the stability of the whole area is being endangered. The US has taken the position that substantial numbers of refugees could be permitted to return gradually to their homes without endangering Israeli security and that the PGI's failure to cooperate in this matter will greatly increase the difficulty of working out a lasting solution for the Palestine problem.

SECRET**F A R E A S T**

Soviet prospects for exploiting Japanese dependence upon North China, Korea, and Manchuria for raw materials are decreasing as a result of recent successful negotiations by SCAP to obtain its iron ore requirements from other sources. Contracts for 590,000 tons of ore have already been signed and negotiations are under way for an additional 540,000 tons. The present iron ore arrangements lessen the possibility that the USSR will be able to use its control over raw materials needed by Japan as an economic weapon to further Soviet political objectives within Japan.

BURMA

Although the immediate threat to the Burma Government has been slightly decreased by recent successes against mutinous army units, the prospects for the present Government to reassert its control over all of Burma are slim. The loyal army units, judiciously used, should be able to disperse the insurgents but the rebels will be able to continue guerrilla warfare for some time to come. The establishment of a stable government capable of controlling all Burmese territory will depend upon thorough reorganization and new leadership in both the Government and the leading political party and upon obtaining some form of substantial assistance from an outside power. Dr. Ba Maw, the wartime Japanese puppet dictator and a shrewd politician who has been in semi-retirement, may take advantage of the situation and attempt a return to power. Although India and China are deeply concerned with internal conditions in Burma, both are too engrossed with their own problems to provide significant aid. The UK can offer limited aid but appears to be awaiting developments before making any immediate military commitments.

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CHINA

The military situation in China appears to have eased temporarily. The arrival of Nationalist reinforcements in Tsinan reduces the likelihood of an immediate Communist assault on that fortified Shantung city. In eastern Hopeh Province, Nationalist General Fu Tso-yi launched the most successful drive to date in his campaign against the Communists and, although failing to trap his adversaries as planned, he succeeded in driving them to the north and to the west.

- 8 -

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W E S T E R N H E M I S P H E R E

Superior Nicaraguan air power will probably prove the deciding factor in suppressing the current wave of conspiratorial activity in Central America and in containing the guerrillas now operating on Nicaragua's northern frontier. General Somoza has offered aircraft to the Panamanian Government for the purpose of repelling any invasion of Panama organized by Arnulfo Arias. He also has threatened to attack Costa Rica if that country permits such an invasion; this will probably compel Costa Rica to suppress Arias' activities in its territory. Guatemalan officials can be expected to continue their support of anti-Somoza revolutionaries, although Nicaragua's superior air strength will probably be a deterrent to Guatemala's direct espousal of the anti-Somoza cause in Central America.

VENEZUELA

Inadequate security continues to make Venezuelan oil fields particularly susceptible to Communist penetration. A recent survey of the western oil fields and of the Paraguana Peninsula indicates that the Communists already have access to several operations including shipping, power plants, docks, and refineries. In the non-US operated fields, the Communists are strongly entrenched. Although the oil companies have adopted precautionary security measures, they will require substantial aid if an attempt is made to sabotage the industry, and the Army and Guardia Nacional (federal police) will be unable to suppress promptly large-scale uprisings.

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- 55, 56. Secretary, State-Army-Navy-Air Coordinating Committee

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